

CITY OF AKUTAN, ALASKA

Basic Financial Statements, Required
Supplementary Information, Additional Supplementary
Information and Compliance Report

Year Ended June 30, 2017

CITY OF AKUTAN, ALASKA

Basic Financial Statements, Required
Supplementary Information, Additional Supplementary
Information and Compliance Report

Year Ended June 30, 2017

CITY OF AKUTAN, ALASKA

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Independent Auditor's Report

Members of the City Council
City of Akutan, Alaska
Akutan, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Akutan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, Schedule of the City's Proportionate Share of the Net Pension Liability – Public Employees' Retirement System, and Schedule of the City's Contributions – Public Employees' Retirement System on pages 41-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Akutan's basic financial statements. The information listed in the table of contents as "Additional Supplementary Information", which includes Major Governmental Funds: Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (where applicable) for the General Fund, Permanent Fund Special Revenue Fund, Geothermal Development Special Revenue Fund, and Duplex New Construction Capital Project Fund; Other Governmental Funds: Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance, and the Schedule of State Financial Assistance, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Additional Supplementary Information listed above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2018, on our consideration of the City of Akutan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Akutan's internal control over financial reporting and compliance.

Altman, Rogers & Co.

Anchorage, Alaska
March 19, 2018

CITY OF AKUTAN

Statement of Net Position

June 30, 2017

Assets and Deferred Outflows of Resources	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	\$ 5,251,015	550	5,251,565
Receivables, net of allowance for doubtful allowance:			
Akutan Traditional Council	52,564	-	52,564
Fish taxes	336,628	-	336,628
Accounts	2,601	34,670	37,271
Grants	252,954	-	252,954
Prepaid items	15,911	-	15,911
Fuel inventory	162,664	4,358	167,022
Investment in Southwest Governments, LLC	543,769	-	543,769
Capital assets not being depreciated - land and construction in progress	2,097,991	-	2,097,991
Other capital assets, net of accumulated depreciation	9,508,627	3,544,881	13,053,508
Total assets	18,224,724	3,584,459	21,809,183
 Deferred outflows of resources -			
Pension deferrals	306,870	-	306,870
 Total assets and deferred outflows of resources	\$ 18,531,594	3,584,459	22,116,053
 Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities:			
Accounts payable	141,103	7,842	148,945
Accrued payroll and benefits	27,855	4,396	32,251
Prepaid rent	7,700	-	7,700
Noncurrent liabilities:			
Due within one year - accrued leave	73,681	8,670	82,351
Due in more than one year - net pension liability	1,483,815	-	1,483,815
Total liabilities	1,734,154	20,908	1,755,062
 Deferred inflows of resources -			
Pension deferrals	352,262	-	352,262
 Net position:			
Net investment in capital assets	11,606,618	3,544,881	15,151,499
Unrestricted	4,838,560	18,670	4,857,230
Total net position	16,445,178	3,563,551	20,008,729
 Total liabilities, deferred inflows of resources and net position	\$ 18,531,594	3,584,459	22,116,053

See accompanying notes to basic financial statements.

CITY OF AKUTAN

Statement of Activities
Year Ended June 30, 2017

Activities	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 1,402,237	15,911	13,662	374,404	(998,260)	-	(998,260)
Public safety	117,003	-	16,486	-	(100,517)	-	(100,517)
Community services	377,961	114,959	1,479	-	(261,523)	-	(261,523)
Public works	1,906,592	57,310	1,419,576	139,655	(290,051)	-	(290,051)
Port authority	776,892	3,803	5,687	-	(767,402)	-	(767,402)
Total governmental activities	4,580,685	191,983	1,456,890	514,059	(2,417,753)	-	(2,417,753)
Business-type activities- electric	632,494	319,558	-	-	-	(312,936)	(312,936)
Total	\$ 5,213,179	511,541	1,456,890	514,059	(2,417,753)	(312,936)	(2,730,689)
General revenues:							
Fish taxes				\$ 2,044,698	-	-	2,044,698
Grants and entitlements not restricted to a specific purpose				1,514,864	-	-	1,514,864
Investment income				96,599	-	-	96,599
Other				15,718	-	-	15,718
Total general revenues				3,671,879	-	-	3,671,879
Net transfers				(72,138)	72,138	-	-
Total general revenues and transfers				3,599,741	72,138	-	3,671,879
Change in net position				1,181,988	(240,798)	-	941,190
Net position, beginning of year, as previously stated				15,158,078	3,804,349	-	18,962,427
Prior period adjustment				105,112	-	-	105,112
Net position, beginning of year, as restated				15,263,190	3,804,349	-	19,067,539
Net position, end of year				\$ 16,445,178	3,563,551	-	20,008,729

See accompanying notes to basic financial statements.

CITY OF AKUTAN

Governmental Funds
Balance Sheet
June 30, 2017

Major Funds							
Assets	Special Revenue Funds				Duplex Construction Capital Project Fund	Other Governmental Funds	Total Govern- mental Funds
	General	Permanent	Geothermal Development	Fuel/Gas Special Revenue Fund			
Cash and investments	\$ 3,372,242	1,461,814	257,833	-	-	159,126	5,251,015
Receivables:							
Fish taxes	336,628	-	-	-	-	-	336,628
Accounts	7,609	-	-	24,289	-	-	31,898
Grants	-	-	183,495	-	69,459	-	252,954
Other	18,063	-	-	-	-	-	18,063
Allowance for doubtful accounts	(27,360)	-	-	(20,000)	-	-	(47,360)
Prepaid items	15,911	-	-	-	-	-	15,911
Fuel inventory	88,322	-	-	74,342	-	-	162,664
Due from other funds	114,421	-	-	-	-	-	114,421
Long-term receivable -							
Akutan Traditional Council	52,564	-	-	-	-	-	52,564
Investment in Southwest							
Governments, LLC	543,769	-	-	-	-	-	543,769
Total assets	<u>\$ 4,522,169</u>	<u>1,461,814</u>	<u>441,328</u>	<u>78,631</u>	<u>69,459</u>	<u>159,126</u>	<u>6,732,527</u>
Liabilities, Deferred inflows of Resources and Fund Balances (Deficit)							
Liabilities:							
Accounts payable	65,322	730	47,454	2,376	750	24,471	141,103
Accrued payroll and benefits	27,158	-	-	697	-	-	27,855
Prepaid rent	7,700	-	-	-	-	-	7,700
Due to other funds	-	12,027	-	60,338	42,056	-	114,421
Total liabilities	<u>100,180</u>	<u>12,757</u>	<u>47,454</u>	<u>63,411</u>	<u>42,806</u>	<u>24,471</u>	<u>291,079</u>
Deferred inflows of resources:							
Southwest Governments, LLC	71,226	-	-	-	-	-	71,226
Unavailable revenue	-	-	-	180	-	-	180
Total deferred inflows of resources	<u>71,226</u>	<u>-</u>	<u>-</u>	<u>180</u>	<u>-</u>	<u>-</u>	<u>71,406</u>
Total liabilities and deferred inflows of resources	<u>171,406</u>	<u>12,757</u>	<u>47,454</u>	<u>63,591</u>	<u>42,806</u>	<u>24,471</u>	<u>362,485</u>
Fund balances (deficit):							
Nonspendable	700,566	-	-	74,342	-	-	774,908
Committed	-	1,449,057	393,874	-	26,653	134,655	2,004,239
Unassigned (deficit)	3,650,197	-	-	(59,302)	-	-	3,590,895
Total fund balances (deficit)	<u>4,350,763</u>	<u>1,449,057</u>	<u>393,874</u>	<u>15,040</u>	<u>26,653</u>	<u>134,655</u>	<u>6,370,042</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,522,169</u>	<u>1,461,814</u>	<u>441,328</u>	<u>78,631</u>	<u>69,459</u>	<u>159,126</u>	<u>6,732,527</u>

CITY OF AKUTAN

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net position
June 30, 2017

Total fund balances for governmental funds \$ 6,370,042

Total net position reported for governmental activities in the
Statement of Net Position is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. These
assets, net of accumulated depreciation consist of:

Land and improvements	\$ 793,886	
Construction in progress	1,304,105	
Buildings and improvements	6,780,665	
Equipment	1,168,922	
Water and sewer lines	625,000	
Infrastructure	6,471,378	
Accumulated depreciation	<u>(5,537,338)</u>	
Total capital assets		11,606,618

Long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds.

Unrealized gain on a long-term asset	71,226	
Unavailable revenue	<u>180</u>	
		71,406

Long-term liabilities, including note payable, accrued leave,
and accrued interest are not due and payable in the
current period and therefore are not reported as fund liabilities.

Accrued leave	(73,681)	
City's proportionate share of the collective net pension liability - PERS	<u>(1,483,815)</u>	
		(1,557,496)

Deferred outflows and inflows of resources related to
pensions are the result of timing differences in the
actuarial report:

Deferred outflows of resources - pension deferrals	306,870	
Deferred inflows of resources - pension deferrals	<u>(352,262)</u>	
		<u>(45,392)</u>

Total net position of governmental activities \$ 16,445,178

See accompanying notes to basic financial statements.

CITY OF AKUTAN

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Year Ended June 30, 2017

	Major Funds						
	Special Revenue Funds				Duplex Construction Capital Project Fund	Other Governmental Funds	Total Governmental Funds
	General	Permanent	Geothermal Development	Fuel/Gas Special Revenue Fund			
Revenues:							
Intergovernmental:							
Federal sources	\$ 15,000	-	559,554	-	-	139,655	714,209
State of Alaska	1,422,810	-	857,393	-	374,404	-	2,654,607
Local:							
Fish taxes	2,044,698	-	-	-	-	-	2,044,698
Charges for services	-	-	-	92,285	-	-	92,285
Investment income	49,572	57,864	42	-	-	796	108,274
Other revenues	252,529	-	-	-	-	-	252,529
Total revenues	<u>3,784,609</u>	<u>57,864</u>	<u>1,416,989</u>	<u>92,285</u>	<u>374,404</u>	<u>140,451</u>	<u>5,866,602</u>
Expenditures:							
Current:							
General government	1,277,732	5,088	-	-	-	-	1,282,820
Public safety	121,826	-	-	-	-	-	121,826
Community services	129,827	-	-	135,643	-	-	265,470
Public works	275,124	-	1,536,738	-	-	1,125	1,812,987
Port authority	668,543	-	-	-	-	-	668,543
Capital outlay	-	-	-	-	718,126	412,493	1,130,619
Total expenditures	<u>2,473,052</u>	<u>5,088</u>	<u>1,536,738</u>	<u>135,643</u>	<u>718,126</u>	<u>413,618</u>	<u>5,282,265</u>
Excess (deficiency) of revenues over (under) expenditures	1,311,557	52,776	(119,749)	(43,358)	(343,722)	(273,167)	584,337
Other financing sources (uses):							
Transfers in	-	-	-	126,557	196,729	170,426	493,712
Transfers out	(565,850)	-	-	-	-	-	(565,850)
Net other financing sources (uses)	<u>(565,850)</u>	<u>-</u>	<u>-</u>	<u>126,557</u>	<u>196,729</u>	<u>170,426</u>	<u>(72,138)</u>
Net change in fund balances	745,707	52,776	(119,749)	83,199	(146,993)	(102,741)	512,199
Beginning fund balances (deficit)	<u>3,605,056</u>	<u>1,396,281</u>	<u>513,623</u>	<u>(68,159)</u>	<u>173,646</u>	<u>237,396</u>	<u>5,857,843</u>
Ending fund balances (deficit)	<u>\$ 4,350,763</u>	<u>1,449,057</u>	<u>393,874</u>	<u>15,040</u>	<u>26,653</u>	<u>134,655</u>	<u>6,370,042</u>

CITY OF AKUTAN

Reconciliation of the Change in Fund Balances of Governmental Funds
to Statement of Activities
Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ 512,199

The change in net position reported for governmental activities in the
Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However
in the Statement of Activities the cost of those assets
is allocate over their estimated useful lives.

Capital asset additions	\$	1,223,849	
Depreciation expense		(399,932)	
		823,917	

Certain revenues in the statement of activities do not provide current
financial resources and are reported as unearned or unavailable revenue
in the funds. The following are increases (decreases) in unavailable
revenues:

City's investment in Southwest Governments, LLC.	(11,675)		
Fuel and Gas Special Revenue accounts receivables		(3,780)	
		(15,455)	

Some expenses reported in the Statement of Activities do not require
the use of current financial resources and, therefore, are not reported
as expenditures in governmental funds:

Compensated absences, net change	(7,061)		
Change in the City's share of the unfunded pension liability		468,422	
		461,361	

Changes in deferred inflows and outflows of resources are the results of timing differences in the actuarial report and adjustments to reflect the employer and non-employer contributions based on the measurement date of the net pension liability	(600,034)
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Change in net position of governmental activities	\$	1,181,988
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See accompanying notes to basic financial statements.

CITY OF AKUTAN

Electric Enterprise Fund
Statement of Net Position
June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$	550
Accounts receivable		34,670
Fuel inventory		4,358
Total current assets		<u>39,578</u>

Noncurrent assets:

Capital assets:

Buildings and improvements	319,116
Service lines	1,667,656
Hydro plant	2,240,736
Equipment	1,232,211
Total capital assets	<u>5,459,719</u>

Less accumulated depreciation	<u>(1,914,838)</u>
Capital assets, net of accumulated depreciation	<u>3,544,881</u>

Total assets	\$	<u><u>3,584,459</u></u>
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Liabilities and Net Position

Current liabilities:

Accounts payable	7,842
Accrued payroll and benefits	4,396
Total current liabilities	<u>12,238</u>

Non-current liabilities:

Accrued leave	<u>8,670</u>
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Net position:

Net investment in capital assets	3,544,881
Unrestricted	18,670
Total net position	<u>3,563,551</u>

Total liabilities and net position	\$	<u><u>3,584,459</u></u>
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See accompanying notes to basic financial statements.

CITY OF AKUTAN

Electric Enterprise Fund
Statement of Revenues, Expenses and
Changes in Net Position
Year Ended June 30, 2017

Operating revenues:	
Charges for services	\$ 245,991
City electric usage	73,567
Total operating revenues	<u>319,558</u>
Operating expenses:	
Salaries and benefits	216,587
Outside services	49,093
Parts and supplies	2,887
Travel and per diem	14,231
Insurance	4,568
Fuel	103,558
Repair and maintenance	352
Dues and fees	39
Postage	381
Depreciation	240,798
Total operating expenses	<u>632,494</u>
Income (loss) from operations	<u>(312,936)</u>
Other financing sources:	
Transfers in - General Fund	<u>72,138</u>
Change in net position	(240,798)
Net position, beginning of year	<u>3,804,349</u>
Net position, end of year	<u>\$ 3,563,551</u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN

Electric Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2017

Cash flows provided (used) by operating activities:

Receipts from customers and users	\$ 292,088
Payments to suppliers	(164,148)
Payments to employees	(208,588)
Net cash flows provided (used) by operating activities	<u>(80,648)</u>

Cash flows provided (used) noncapital financing activities:

Transfers in- general fund	<u>72,138</u>
Net (decrease) in cash and cash equivalents	(8,510)

Beginning cash and cash equivalents	<u>9,060</u>
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Ending cash and cash equivalents	<u><u>\$ 550</u></u>
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Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	(312,936)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation	240,798
(Increase) decrease in assets:	
Accounts receivable	(27,470)
Fuel inventory	5,161
Increase (decrease) in liabilities:	
Accounts payable	5,800
Accrued payroll benefits	2,582
Accrued leave	<u>5,417</u>
Net cash flows (used) by operating activities	<u><u>\$ (80,648)</u></u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN

Notes to Basic Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

Reporting Entity

The City of Akutan (City) was incorporated in 1979 as a second class city under the laws of the State of Alaska. The City operates under a Council-Mayor form of government and performs municipal duties allowed by Alaska statutes and as directed by its residents.

The financial statements included in this report are for the City of Akutan only. There are no other component units for which the City of Akutan is financially accountable, nor do any special financial relationships exist between the City and any other entity.

The accounting policies of the City conform to generally accepted accounting principles accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, grants and entitlements not restricted to a specific purpose, investment income, and other items not properly included among program revenues are reported instead as *general revenues*.

Deferred inflows of resources are the acquisition of fund balance/net position by the City that are applicable to a future reporting period. Deferred outflows of resources are the consumption of fund balance/net position by the City that are applicable to a future reporting period.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are presented in a single column as "other government funds".

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues except grant reimbursements to be available if they are collected within 60 days after year end. Grant reimbursements are considered available if they are collected within one year after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Fish taxes, charges for services, rentals, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

Entitlements and shared revenues are recorded at the time of a receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants, including capital grants, recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and when revenues are considered to be available and measurable, which is considered to be within 12 months of the end of the current fiscal period.

The City reports the following major funds:

Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Permanent Special Revenue Fund* manages funds for operations in the event there is a fisheries decline or other community disaster.

The *Geothermal Development Special Revenue Fund* accounts for activities related to a feasibility study to determine if geothermal energy sources are economical for the City of Akutan.

The *Duplex Construction Capital Project Fund* accounts for activities related to the construction of a new housing duplex owned by the City.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Major proprietary fund –

The *Electric Enterprise Fund* is used to account for the operations of the electric utility.

Additionally, the City reports the following fund types:

- Special Revenue Funds – accounts for revenue sources that are legally restricted or committed to expenditures for specific purposes.
- Capital Project Funds – accounts for the acquisition of the capital assets or construction of major capital projects not being financed by proprietary funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise fund and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. In addition, general revenues include all taxes, investment income, and State entitlement revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenue recognition of capital contributions are based on the requirements of the Governmental Accounting Standards Boards Certification N50 Non-exchange transactions.

Estimates

In preparing the financial statements, management of the City is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and revenues and expenditures/expenses for the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City follows Governmental Accounting Standards Boards Certification P80. This statement established standards for reporting cash flows of Proprietary Funds. For purposes of the statement of cash flows, the enterprise fund considers all equity in central treasury to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) cash and cash equivalents, (2) receivables, net, (3) certain other current assets, (4) accounts payable, and (5) other current liabilities. The carrying amounts reported in the balance sheet and Statement of Net Position for the above financial instruments closely approximates their fair value due to the short-term nature of these assets and liabilities, except for the City's investments. The carrying amount of the City's investments are determined based on quoted market prices.

The carrying amount of notes receivable and notes payable approximates fair value for those financial instruments with interest at variable rates, as those rates approximate current market rates for notes with similar maturities and credit quality.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The prepaid assets do not reflect current available resources and, thus, an equivalent portion of fund balance is classified as nonspendable in the fund financial statements.

Inventory

Inventories are valued at cost (first-in, first-out). Inventory consists of fuel held for resale and/or consumption by City departments. The cost is recorded as an expenditure or expense at the time individual inventory items are consumed. Reported inventories are equally offset by a portion of fund balance classified as nonspendable in the fund financial statements which indicates that these do not constitute "available spendable resources" even though they are a component of net current assets.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All account receivables are reported net of an allowance for doubtful receivables. The allowance for doubtful receivables is an estimate of the amount uncollectible based on past experience.

Accrued Leave

The City allows employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets (e.g. roads and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Infrastructure (dock, floats, etc.)	50 years
System infrastructure	20-50 years
Machinery and equipment	5-20 years

Unavailable Revenue

Resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered to be available.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form — long-term receivables, prepaid items or inventories; or (b) legally or contractually required to be maintained intact. Such constraint is binding until legal or contractual requirement is repealed or the amount becomes spendable.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Such constraint is binding unless modified or rescinded by external body, laws, or regulation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Compliance with the provisions of the Fund Balance Classification Policy are reviewed as part of the annual budget adoption process. The City Manager reports to the Council as close to the end of the year as possible the anticipated year-end fund balance or deficit. The Council takes appropriate action to commit or assign, or otherwise allocate prior year fund balances as a part of the budget planning process.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

Net Position

Government-wide net position is divided into three components:

Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Restricted net position – consists of assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted – all other net position is reported in this category.

Grants and Other Intergovernmental Revenues

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to construct assets. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Budgetary Accounting

An operating budget is adopted each fiscal year for the General Fund and most Special Revenue Funds on the same modified accrual basis used to reflect actual revenues and expenditures. Appropriations for these funds lapse at year end to the extent that they have not been expended or encumbered. The Capital Project funds adopt project-length budgets.

Supplemental appropriations that amend the total expenditures of any department or fund require Council approval. The budgeted financial statements presented in this report reflect the final budget authorization, including amendments made during the year.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. The Administrator must submit to the City Council by May 1 a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted by the City Council to provide an opportunity for public comment.
- c. By June 15, by City Council action, the budget is legally enacted through passage of an ordinance. If the City Council fails to pass an ordinance, the budget submitted by the Administrator becomes the adopted budget.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

In order to demonstrate budgetary compliance, accounting principles in the United States require that management provide certain budgetary comparison schedules for the General Fund and each major special revenue fund with an annually adopted budget. For fiscal year 2017, The City adopted a project length budget for the Permanent Special Revenue Fund and Duplex Construction Capital Project Fund. Therefore the budgetary schedule has not been presented with the required supplementary information.

(2) Cash and Investments

The City's cash and investment are comprised of the following at June 30, 2017:

Demand and money market accounts	\$ 3,799,422
Investments	<u>1,452,143</u>
	\$ <u>5,251,565</u>

Except for the Permanent and Geothermal Development Special Revenue Funds, and Other Capital Projects Capital Project Fund, all cash is maintained in a central treasury and is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or in the case of "negative" cash, is included in "due to other funds." The City's cash is held in the form of demand accounts including checking, savings, and money market accounts held by commercial banks and money market funds in investment accounts as follows:

Money market funds	\$ 2,004,262
Bank deposits at carrying value	1,693,274
Certificates of deposit	100,624
Petty cash	<u>1,262</u>
Total	\$ <u>3,799,422</u>

Custodial credit risk - is the risk that in the event of a bank failure, the City's deposits may not be returned to it. To limit credit risk, City policy requires that all deposits be insured or covered by collateralization agreements although one of the City's current banking arrangements does not include collateralization and was uninsured to the extent of approximately \$1,312,212 at June 30, 2017.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Investment policy

The City's investment policy authorizes investments in:

1. Treasury bonds, bills, notes or other general obligation evidences of indebtedness of the United States or an agency or instrumentality of the United States, or of the State of Alaska, or of other states of the United States, or of this City, of other cities of the State, and of boroughs of this State;
2. Fully insured or fully collateralized certificates of deposit, savings deposits, and other interest-bearing deposit accounts in member banks insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC);
3. Repurchase agreements where the general checking balance at the end of each business day is used to buy a security from the bank and held over night;
4. Investments through the Alaska Municipal League Investment Pool (AMLIP); and
5. Domestic, international, and real estate equities.

Interest rate risk - is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment maturities at June 30, 2017 are as follows:

	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	More Than 5
Investment Type				
Mutual Funds:				
Mid-Cap	\$ 69,414	69,414	-	-
Large Cap	236,808	236,808	-	-
International	155,269	155,269	-	-
Fixed Income:				
Corporate Bonds	410,029	24,994	254,908	130,127
Government Mortgage Backed Securities	14,037	-	-	14,037
U.S. Government Agency	49,639	-	-	49,639
U.S. Treasury Notes	516,947	-	367,106	149,841
Total investments	\$ 1,452,143	486,485	622,014	343,644

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Mutual Funds	461,491	461,491	-	-
Corporate Bonds	410,029	410,029	-	-
Mortgage Bonds	14,037	14,037	-	-
U.S. Government Agency	49,639	49,639		
U.S. Treasury Notes	516,947	516,947	-	-
Total Investments	1,452,143	1,452,143	-	-

Credit risk - is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investments in mutual funds of \$461,491 and Government Mortgage Backed Securities of \$14,037 were not rated. The City's investments in Corporate Bonds of \$410,029 were rated as follows by Standard and Poor's: \$75,301 AA-, \$75,886 A, \$128,537 A-, \$79,410 BBB+, and \$50,895 BBB-. The City's investments in U.S. Government Agencies of \$49,639 were rated AA+ and investments in U.S. Treasuries of \$516,947 are rated AAA.

Concentration of Credit Risk

The City places no limit on the amount that the City can invest in any one issue. At June 30, 2016, more than 5% of the City's investments were held in securities of the issuer listed below:

<u>Type of Investments</u>	<u>Amount</u>	<u>Of Investment</u>
SPDR S&P 500 ETF Trust	\$ 181,350	12.5%
IShares Core MSCI EAFE ETF	\$ 155,270	10.7%
U.S. Treasury Bills and Notes	\$ 516,947	35.6%

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAA for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value.

(3) Investment in Southwest Governments, LLC

The City has purchased a 40 percent ownership in Southwest Governments, LLC, an investment company formed to buy an office building in Anchorage, Alaska. The office building was purchased in May 2002 and is currently rented to outside parties, including the group that owns Southwest Governments, LLC. The City's investment in Southwest Governments, LLC, is recorded on the equity method. The City's balance in this investment at June 30, 2017 is \$543,769.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

(4) Accounts Receivable and Valuation Allowance

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful receivables. At June 30, 2017, receivables for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

Governmental Funds				
	General Fund	Geothermal Development Special Revenue Fund	Duplex Construction Capital Project Fund	
Receivables:				
Fish taxes	\$ 336,628	-	-	
Customers	7,609	-	-	
Grants	-	183,495	69,459	
Notes receivable	52,564	-	-	
Other	18,063	-	-	
Gross receivables	414,864	183,495	69,459	
Less: allowance for uncollectibles	(27,360)	-	-	
Net receivables	\$ 387,504	183,495	69,459	

Governmental Funds, continued				
	Fuel/Gas Special Revenue Fund	Total Governmental Funds	Electric Enterprise Fund	Total
Receivables:				
Fish taxes	\$ -	336,628	-	336,628
Customers	24,289	31,898	34,670	66,568
Grants	-	252,954	-	252,954
Notes receivable	-	52,564	-	52,564
Other	-	18,063	-	18,063
Gross receivables	24,289	692,107	34,670	726,777
Less: allowance for uncollectibles	(20,000)	(47,360)	-	(47,360)
Net receivables	\$ 4,289	644,747	34,670	679,417

The City reports deferred inflows of resources for unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. For the year ended June 30, 2017, total unavailable revenues amounted to \$180.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

(5) Long-Term Receivable

In August 2010, the City signed an agreement with Akutan Traditional Council to loan \$100,400 to the Council for construction of six homes. The Council makes payments as funds are available. The long-term receivable at June 30, 2017 was \$52,564.

(6) Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<u>Governmental activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and improvements	\$ 793,886	-	-	793,886
Construction in progress	<u>1,227,303</u>	<u>1,130,619</u>	<u>1,053,817</u>	<u>1,304,105</u>
Total capital assets not being depreciated	<u>2,021,189</u>	<u>1,130,619</u>	<u>1,053,817</u>	<u>2,097,991</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	5,726,848	1,053,817	-	6,780,665
Equipment	1,075,692	93,230	-	1,168,922
Water and sewer lines	625,000	-	-	625,000
Infrastructure	<u>6,471,378</u>	<u>-</u>	<u>-</u>	<u>6,471,378</u>
Total capital assets being depreciated	<u>13,898,918</u>	<u>1,147,047</u>	<u>-</u>	<u>15,045,965</u>
Less accumulated depreciation for:				
Buildings and improvements	1,585,136	145,069	-	1,730,205
Equipment	520,836	77,455	-	598,291
Water and sewer lines	397,500	12,500	-	410,000
Infrastructure	<u>2,633,934</u>	<u>164,908</u>	<u>-</u>	<u>2,798,742</u>
Total accumulated depreciation	<u>5,137,406</u>	<u>399,932</u>	<u>-</u>	<u>5,537,338</u>
Total capital assets being depreciated, net	<u>8,761,512</u>	<u>747,115</u>	<u>-</u>	<u>9,508,627</u>
Governmental activity capital assets, net	\$ <u>10,782,701</u>	<u>1,877,734</u>	<u>1,053,817</u>	<u>11,606,618</u>

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<u>Business-type activities</u>				
<i>Capital assets:</i>				
Buildings and improvements	\$ 319,116	-	-	319,116
Service lines	1,667,656	-	-	1,667,656
Hydro plant	2,240,736	-	-	2,240,736
Equipment	<u>1,232,211</u>	<u>-</u>	<u>-</u>	<u>1,232,211</u>
Total capital assets	<u>5,459,719</u>	<u>-</u>	<u>-</u>	<u>5,459,719</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 155,218	12,594	-	167,812
Service lines	595,355	53,611	-	648,966
Infrastructure	490,364	89,846	-	580,210
Equipment	<u>433,103</u>	<u>84,747</u>	<u>-</u>	<u>517,850</u>
Total accumulated depreciation	<u>1,674,040</u>	<u>240,798</u>	<u>-</u>	<u>1,914,838</u>
Business-type activity capital assets, net	\$ <u>3,785,679</u>	<u>240,798</u>	<u>-</u>	<u>3,544,881</u>

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 49,214
Public safety	6,845
Community services	105,657
Public works	97,370
Port authority	<u>140,846</u>
Total governmental activities	<u>\$ 399,932</u>

Business-type activities

Electric utility	<u>\$ 240,798</u>
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Restatement of Beginning Balances:

During the fiscal year 2017, management determined that costs associated with a water system improvement project incurred by ANTHC on the City's behalf were not properly capitalized in the previous fiscal year. Beginning Construction in Progress balances and Net Position for the City's Governmental Activities has been adjusted in the amount of \$105,112 to reflect these costs.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

(7) Interfund Receivables, Payables, and Transfers

(a) Interfund Receivables and Payables

A summary of interfund receivables and payables at June 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major governmental funds:		
General Fund	Duplex Construction Capital Project Fund	\$ 42,056
General Fund	Permanent Special Revenue Fund	12,027
General Fund	Fuel/gas Special Revenue Fund	60,338
		<u>\$ 114,421</u>

(b) Transfers:

From General Fund to:

Electric Enterprise Fund to cover operating costs	\$ 72,138
Duplex Construction Capital Project Fund for local matching	196,729
Fuel/Gas Special Revenue Fund	126,557
Other Governmental Funds to cover capital costs	<u>170,426</u>
Total transfers	<u>\$ 565,850</u>

(8) Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2017:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Retired</u>	Balance June 30, <u>2017</u>	Due Within <u>One Year</u>
<u>Governmental activities</u>					
Accrued leave (net of payouts)	<u>66,620</u>	<u>73,681</u>	<u>66,620</u>	<u>73,681</u>	<u>73,681</u>
<u>Business-type activities</u>					
Accrued leave (net of payouts)	\$ <u>3,253</u>	<u>8,670</u>	<u>3,253</u>	<u>8,670</u>	<u>8,670</u>

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

(9) Fund Balances

Fund balances, reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	General Fund	Permanent Special Revenue Fund	Geothermal Development Special Revenue Fund	Fuel/Gas Special Revenue Fund	Duplex Construction Capital Project Fund	Other Governmental Funds	Totals
Nonspendable:							
Inventory	\$ 88,322	-	-	74,342	-	-	162,664
Prepaid items	15,911	-	-	-	-	-	15,911
Long-term receivables	52,564	-	-	-	-	-	52,564
Investment in Southwest Governments, LLC	543,769	-	-	-	-	-	543,769
Total nonspendable	\$ 700,566	-	-	74,342	-	-	774,908
Committed:							
Permanent Fund	\$ -	1,449,057	-	-	-	-	1,449,057
Geothermal Development	-	-	393,874	-	-	-	393,874
Duplex Construction	-	-	-	-	26,653	-	26,653
Water and Sewer Projects	-	-	-	-	-	98,875	98,875
Boat Harbor Projects	-	-	-	-	-	10,000	10,000
Other Capital Projects	-	-	-	-	-	25,780	25,780
Total committed	-	1,449,057	393,874	-	26,653	134,655	2,004,239
Unassigned (deficit)	3,650,197	-	-	(59,302)	-	-	3,590,895
Total fund balances	\$ 4,350,763	1,449,057	393,874	15,040	26,653	134,655	6,370,042

(10) Landfill Closure and Postclosure Liability

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, accounting principles generally accepted in the United States of America require that the City report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. However, at this time, the study to estimate the ultimate cost of closure and postclosure monitoring has not been completed. As a result, there is no accrual to provide for these costs in the financial statements.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

(11) Employee Retirement Systems and Plan

The City follows *Governmental Accounting Standards Board (GASB) Codification P20*, Accounting for Pensions by State and Local Governmental Employees and *GASB Codification P50*, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. *GASB Codification P20* and *GASB Codification P50* establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

All full-time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan PERS also administers other post-employment benefit plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee.

Summary of Significant Accounting Policies. The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

PERS acts as the common investment and administrative agencies for the following multiple-employer plans:

Plan Name	Type of Plan
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (DB)	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefits OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefits OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefits OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

Other Postemployment Benefit Plans (OPBP)

Occupational Death and Disability Plan (DB)

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Alaska Retiree Healthcare Trust Plan (DB)

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

Healthcare Reimbursement Arrangement Plan (DC)

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants.

Alaska Public Employee Retirement System (PERS) – Defined Benefit Plan (DB)

Plan Description. The City participates in the Alaska Public Employees' Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Plan was established and is administered by the State of Alaska, Department of Administration. The Public Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811 or online at <http://doa.alaska.gov/drb/pers>.

Pension Benefits. All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 155 employers participating in PERS, including the State of Alaska and 154 political subdivisions and public organizations.

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

Post Retirement Pension Adjustments. Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

Funding Policy. In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

Salary Floor. During the 25th legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

Termination Costs. If the City decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The City must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2017 the past service rate is 16.02%.

Employee Contribution Rate. The City PERS active members are required to contribute 6.75% (4.59% pension costs and 2.16% OPEB) and non-teacher City employees are required to contribute 9.60% (6.53% pension and 3.07% OPEB) of their annual covered salary.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Employer and Other Contribution Rates. There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (14.96% pension costs and 7.04% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined benefit plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 26.14% (17.78% pension and 8.36% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. As a result, the On-behalf Contribution Rate for 2017 is 4.14% (2.82% pension and 1.32% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board* (GASB). Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate and a 4.30% healthcare discount rate. The current rate is 83.90% (27.26% pension and 56.64% OPEB).

Employer contributions for the years ended June 30, 2017, 2016 and 2015 are as follows:

		Pensions (DB)	Other Post-Employment Benefits (DB)	Total
2017	\$	52,796	25,040	77,836
2016		52,833	35,256	85,089
2015		45,506	34,331	79,837

The defined benefit unfunded liability (DBUL) presented under the defined contribution plan includes employer contributions of \$68,943 (pension) and \$44,475 (OPEB).

For the year ended June 30, 2017 the State of Alaska contributed \$41,279 (100% pension cost) on-behalf of the City, which has been recorded in the fund financial statement under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf contribution has been adjusted as of the measurement date June 30, 2016 to a total of \$24,943, to represent the pension expense attributable to the State under the full accrual basis of accounting.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2017, the City reported a liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$	1,483,815
State's proportionate share of the net pension liability		<u>185,032</u>
Total	\$	<u>1,668,847</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the present value of contributions for FY2018 through FY2039, as determined by projections based on the June 30, 2016 valuation. At June 30, 2017, the City's proportion was 0.0266%, which is a decrease of 0.0137% from June 30, 2016.

Based on the measurement date of June 30, 2016, the City recognized pension expense of \$278,059 for the year ended June 30, 2017. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 136	(16,540)
Changes of assumptions	6,844	-
Net difference between projected and actual earnings on pension plan investments	145,852	-
Changes in proportion and differences between City contributions and proportionate share of contributions	32,299	(335,722)
City contributions subsequent to the measurement date	<u>121,739</u>	<u>-</u>
Total	\$ <u>306,870</u>	<u>(352,262)</u>

\$121,739 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	\$ (257,097)
2019	(8,161)
2020	59,625
2021	<u>38,502</u>
Total	\$ <u>(167,131)</u>

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2017, the City recognized \$53,096 of amortization of the net deferred outflows and inflows of resources.

Actuarial Assumptions: The total pension liability in the June 30, 2016 (latest available) actuarial valuation was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation – 3.12% per year Productivity – 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)
Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.
Total turnover	Based upon the 2010-2013 actual withdrawal experience.
Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Marriage and age difference

Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	5.35%
Global Equity (non-U.S.)	5.55%
Private Equity	6.25%
Fixed Income	0.80%
Real Estate	3.65%
Alternative Equity	4.70%

Discount Rate: The discount rate used to measure the total pension liability was 8.00%. The projection of the cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net pension was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 8%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
Net pension liability	\$ <u>1,911,078</u>	<u>1,483,815</u>	<u>1,123,438</u>

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

Alaska Public Employee Retirement System (PERS) – Defined Contribution Plan (DC)

Plan Description and Funding Requirements. City's and Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.18% for the retiree medical plan (DB), 0.17% for occupational and death and disability benefits (DB) and 3% of employers' average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

Members become vested in employers' contributions as follows:

- 2 years of service – 25%
- 3 years of service – 50%
- 4 years of service – 75%
- 5 years of service – 100%

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2017 are as follows:

	Employer	Employee
Defined contribution (DC)	\$ 50,125	80,200
Other post-employment benefits (DB):		
Retiree medical plan	11,455	
Occupational death and disability benefits	1,807	
Other post-employment benefits (DC) –		
Health reimbursement agreement (HRA)	44,351	
Defined benefit unfunded liability (DBUL)	113,418	
	\$ 221,156	80,200

Actual contributions were equal to the annual required contributions. The Defined Benefit Unfunded Liability (DBUL) is computed as the difference between the statutory employer contribution rate less employer contributions for the defined contribution, major medical, occupational death and disability and the health reimbursement arrangement. The DBUL calculation is allocated 68% pension and 32% OPEB.

Employer contributions for the years ended June 30, 2017, 2016 and 2015 are as follows:

	Contributions / Pensions	Other Post-Employment Benefits	Total
2017	\$ 119,068	102,088	221,156
2016	52,704	50,454	103,158
2015	34,306	34,365	68,671

Actual contributions were equal to the annual required contributions.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

(13) **Risk Management**

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies, transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs.

The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA) which provides insurance coverage for property and contents damage including damage from flood or earthquake, torts, general liability, public officials' liability, and workers' compensation. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2017. The City has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the policies have stayed relatively constant for the past few years.

(14) **Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and State governments. Any disallowed claims, including amounts already collected, would become a liability.

The City is involved in various claims and pending litigation as part of the normal course of its activities. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the City's financial statements.

(15) **Prior Period Adjustment**

During the fiscal year 2017, management determined that costs associated with a water system improvement project incurred by Alaska Native Tribal Health Consortium (ANTHC) on the City's behalf were not properly capitalized in the previous fiscal year. Beginning Construction in Progress balances and Net Position for the City's Governmental Activities has been adjusted in the amount of \$105,112 to reflect these costs.

(16) **Subsequent Accounting Pronouncements**

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.
- GASB 81 *Irrevocable Split –Interest Agreements*. Effective for fiscal years beginning after December 15, 2016.

CITY OF AKUTAN

Notes to Basic Financial Statements, Continued

- GASB 83 *Certain Retirement Obligations*. Effective for fiscal years beginning after June 15, 2018.
- GASB 84 *Fiduciary Activities*. Effective for fiscal years beginning after December 15, 2018.
- GASB 85 *Omnibus 2017*. Effective for fiscal years beginning after June 15, 2017.
- GASB 86 *Certain Debt Extinguishment Issues*. Effective for fiscal years beginning after June 15, 2017.
- GASB 87 *Leases*. Effective for fiscal years beginning after December 15, 2019.

Statements 81, 83, and 84 are not expected to have any significant impact on the financial statements of the City.

GASB Statements No. 75, the primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB Statement No. 85, the objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, the primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AKUTAN

General Fund

Schedule of Revenues, Expenditures

and Changes in Fund Balance - Original and Final Budget and Actual

Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
Revenues:				
Intergovernmental:				
State of Alaska	\$ 1,327,035	1,205,943	1,422,810	216,867
Federal	-	-	15,000	15,000
Total intergovernmental	<u>1,327,035</u>	<u>1,205,943</u>	<u>1,437,810</u>	<u>231,867</u>
Local:				
Fish taxes	1,800,000	1,800,000	2,044,698	244,698
Investment income	30,000	30,000	49,572	19,572
Other revenues	218,099	237,345	252,529	15,184
Total revenues	<u>3,375,134</u>	<u>3,273,288</u>	<u>3,784,609</u>	<u>511,321</u>
Expenditures:				
Current:				
General government	1,351,009	1,377,065	1,277,732	99,333
Public safety	101,720	112,000	121,826	(9,826)
Community services	300,063	178,150	129,827	48,323
Public works	459,625	489,900	275,124	214,776
Port authority	808,284	731,643	668,543	63,100
Total expenditures	<u>3,020,701</u>	<u>2,888,758</u>	<u>2,473,052</u>	<u>415,706</u>
Excess of revenues over expenditures	354,433	384,530	1,311,557	927,027
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(603,887)	(700,000)	(565,850)	134,150
Total other financing sources (uses)	<u>(603,887)</u>	<u>(700,000)</u>	<u>(565,850)</u>	<u>134,150</u>
Net change in fund balance	\$ <u>(249,454)</u>	<u>(315,470)</u>	745,707	<u>1,061,177</u>
Beginning fund balance			<u>3,605,056</u>	
Ending fund balance			<u>\$ 4,350,763</u>	

CITY OF AKUTAN

Geothermal Development Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Original and Final Budget and Actual
 Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Intergovernmental:				
Federal sources	\$ 931,000	931,000	559,554	(371,446)
State of Alaska	2,695,000	2,695,000	857,393	(1,837,607)
Local sources - investment income	-	-	42	42
Total revenues	<u>3,626,000</u>	<u>3,626,000</u>	<u>1,416,989</u>	<u>(2,209,011)</u>
Expenditures:				
Current:				
Public works	<u>3,981,000</u>	<u>3,981,000</u>	<u>1,536,738</u>	<u>2,444,262</u>
Debt service:				
Principal	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>4,481,000</u>	<u>3,981,000</u>	<u>1,536,738</u>	<u>2,444,262</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(855,000)</u>	<u>(355,000)</u>	<u>(119,749)</u>	<u>235,251</u>
Other financing sources:				
Proceeds from issuance of debt	500,000	-	-	-
Grant match portion	<u>355,000</u>	<u>355,000</u>	<u>-</u>	<u>(355,000)</u>
Total other financing sources	<u>855,000</u>	<u>355,000</u>	<u>-</u>	<u>(355,000)</u>
Net change in fund balance	\$ <u>-</u>	<u>-</u>	(119,749)	<u>(119,749)</u>
Beginning fund balance			<u>513,623</u>	
Ending fund balance			\$ <u>393,874</u>	

CITY OF AKUTAN

Fuel/Gas Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Original and Final Budget and Actual
 Year Ended June 30, 2017

	Original and Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Local sources - charges for services	\$ 190,000	92,285	(97,715)
Total revenues	<u>190,000</u>	<u>92,285</u>	<u>(97,715)</u>
Expenditures:			
Current:			
Community services	<u>198,330</u>	<u>135,643</u>	<u>62,687</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,330)</u>	<u>(43,358)</u>	<u>(35,028)</u>
Other financing sources:			
Transfer in	<u>-</u>	<u>126,557</u>	<u>126,557</u>
Net change in fund balance	<u>\$ (8,330)</u>	83,199	<u>91,529</u>
Beginning fund balance		<u>(68,159)</u>	
Ending fund balance		<u>\$ 15,040</u>	

CITY OF AKUTAN

Schedule of the City's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System (PERS)

June 30, 2017

Year	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0189%	\$ 882,277	\$ 664,805	\$ 1,547,082	\$ 721,914	122%	62.37%
2016	0.0403%	\$ 1,952,237	\$ 524,021	\$ 2,476,258	\$ 675,036	289%	63.96%
2017	0.0266%	\$ 1,483,815	\$ 185,032	\$ 1,668,847	\$ 855,668	173%	59.55%

Notes to Schedule:

1. Information presented for 2017 is based upon Plan measurement date June 30, 2016.
2. Measurement is one year prior to fiscal year end for all years presented.
3. In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
4. This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

CITY OF AKUTAN

Schedule of the City's Contributions

Public Employees' Retirement System (PERS)

June 30, 2017

Year	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 64,269	\$ (64,269)	\$ -	\$ 675,036	9.52%
2016	\$ 82,184	\$ (82,184)	\$ -	\$ 855,668	9.60%
2017	\$ 121,739	\$ (121,739)	\$ -	\$ 1,359,055	8.96%

Notes to schedule

- Valuation date: June 30, 2015, which was rolled forward to June 30, 2016.
- Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry Age Normal - level percentage of payroll.
- Amortization method: Level dollar, closed.
- Amortization period: 25 years, as a level of percentage of payroll.
- Equivalent single amortization period: 17 years.
- Asset valuation method: The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in FY2015, the assets value method recognizes 20% of the gain or loss each year, for a period of 5 years, all assets are valued at fair value.
- Inflation: 3.12% per annum.
- Salary increases: Ranges from 6.36% to 4.92% based on service for Peace Officer/Firefighter. Ranges from 8.35% to 4.34% based on age and service for All Others.
- Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Mortality: Pre-termination mortality rates were based upon the 2010-2013. Actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officers / Firefighters, 95% of all rates of the RP - 2000 Table Base Year provided to 2018 with projected scale BB.
- In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
- This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF AKUTAN

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Year Ended June 30, 2017

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Intergovernmental:			
State of Alaska:			
Fisheries business tax sharing	\$ 943,814	1,082,206	138,392
Shared fisheries business and landing tax	173,049	210,114	37,065
Revenue sharing	89,080	89,211	131
PERS relief	-	41,279	41,279
Total State of Alaska	1,205,943	1,422,810	216,867
Federal - Homeland Security Grant	-	15,000	15,000
Local:			
Fish taxes	1,800,000	2,044,698	244,698
Investment income	30,000	49,572	19,572
Total local	1,830,000	2,094,270	264,270
Other revenues:			
Apartment rental	24,101	32,838	8,737
Warehouse rental	1,500	4,200	2,700
IHS clinic lease	27,895	26,454	(1,441)
Trident lease	15,911	15,911	-
APICDA community support	133,333	133,333	-
Skiff moorage	5,000	3,803	(1,197)
Cable fees	21,605	24,472	2,867
Surf inn sales	5,000	969	(4,031)
Miscellaneous	3,000	10,549	7,549
Total other revenues	237,345	252,529	15,184
Total revenues	3,273,288	3,784,609	511,321

(Continued)

CITY OF AKUTAN

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures:			
Current:			
General government:			
Mayor and council:			
Salaries and benefits	\$ 219,390	194,175	25,215
Travel and per diem	5,500	8,643	(3,143)
Dues and fees	2,000	2,948	(948)
Contributions	8,000	8,600	(600)
Legal	-	3,566	(3,566)
Miscellaneous	-	43	(43)
Total mayor and council	<u>234,890</u>	<u>217,975</u>	<u>16,915</u>
Planning and zoning:			
Salaries and benefits	12,000	-	12,000
Travel and per diem	5,500	-	5,500
Insurance	500	-	500
Dues and fees	1,500	-	1,500
Legal	15,000	3,489	11,511
Miscellaneous	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total planning and zoning	<u>37,000</u>	<u>3,489</u>	<u>33,511</u>
Administration:			
Salaries and benefits	679,800	587,867	91,933
Contractual services	114,975	148,187	(33,212)
Outside services	1,000	-	1,000
Travel and per diem	35,000	43,234	(8,234)
Parts and supplies	15,000	18,180	(3,180)
Rent	43,000	40,424	2,576
Insurance	27,000	26,104	896
Telephone	26,000	34,906	(8,906)
Electricity	4,000	11,617	(7,617)
Dues and fees	15,000	4,577	10,423
Postage	600	922	(322)

(Continued)

CITY OF AKUTAN
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Administration, continued:			
Freight	\$ 1,000	-	1,000
Equipment	2,500	-	2,500
Repairs and maintenance	1,000	-	1,000
Bank fees	1,000	6,991	(5,991)
Lobbying	115,000	115,000	-
Fuel	2,300	2,676	(376)
Miscellaneous	21,000	15,583	5,417
Total administration	<u>1,105,175</u>	<u>1,056,268</u>	<u>48,907</u>
 Total general government	 <u>1,377,065</u>	 <u>1,277,732</u>	 <u>99,333</u>
Public safety:			
Salaries and benefits	85,000	80,582	4,418
Parts and supplies	15,500	8,371	7,129
Insurance	2,100	728	1,372
Repairs and maintenance	1,000	-	1,000
Telephone	1,500	1,277	223
Electricity	2,000	13,491	(11,491)
Equipment	-	15,000	(15,000)
Freight	-	1,171	(1,171)
Fuel	2,400	1,206	1,194
Miscellaneous	2,500	-	2,500
Total public safety	<u>112,000</u>	<u>121,826</u>	<u>(9,826)</u>
Community services:			
Clinic and health:			
Salaries and benefits	-	2,912	(2,912)
Parts and supplies	-	9,401	(9,401)
Dues and fees	-	10	(10)
Insurance	1,900	2,219	(319)
Repairs and maintenance	2,500	366	2,134
Electricity	-	950	(950)
Fuel	-	1,489	(1,489)
Miscellaneous	100	794	(694)
Total clinic and health	<u>4,500</u>	<u>18,141</u>	<u>(13,641)</u>

(Continued)

CITY OF AKUTAN
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Library:			
Salaries and benefits	\$ 39,000	32,959	6,041
Parts and supplies	100	884	(784)
Insurance	2,800	2,747	53
Telephone	800	481	319
Electricity	600	2,200	(1,600)
Fuel	4,000	2,858	1,142
Postage	100	-	100
Miscellaneous	1,000	-	1,000
Total library	<u>48,400</u>	<u>42,129</u>	<u>6,271</u>
Daycare:			
Salaries and benefits	113,000	62,275	50,725
Parts and supplies	750	1,405	(655)
Insurance	3,200	872	2,328
Telephone	250	6	244
Electricity	2,600	2,589	11
Fuel	2,200	2,410	(210)
Repairs and maintenance	500	-	500
Miscellaneous	2,750	-	2,750
Total daycare	<u>125,250</u>	<u>69,557</u>	<u>55,693</u>
Total community services	<u>178,150</u>	<u>129,827</u>	<u>48,323</u>
Public works:			
Administration:			
Salaries and benefits	215,000	34,230	180,770
Contractual services	1,500	-	1,500
Travel and per diem	1,800	-	1,800
Building materials	15,000	2,348	12,652
Parts and supplies	1,000	20,917	(19,917)
Insurance	2,000	2,950	(950)
Postage	200	276	(76)
Freight	2,000	317	1,683
Electricity	200	-	200
Fuel	700	409	291

(Continued)

CITY OF AKUTAN
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Administration, continued:			
Equipment	\$ 7,500	435	7,065
Repairs and maintenance	2,500	-	2,500
Dues and fees	100	-	100
Contributions	-	693	(693)
Miscellaneous	10,000	-	10,000
Total administration	259,500	62,575	196,925
Cable:			
Salaries and benefits	22,000	31,559	(9,559)
Travel and per diem	-	1,290	(1,290)
Parts and supplies	1,500	512	988
Insurance	550	-	550
Subscriptions	18,000	14,645	3,355
Freight	-	181	(181)
Repairs and maintenance	-	2,798	(2,798)
Telephone	-	2,321	(2,321)
Miscellaneous	750	-	750
Total cable	42,800	53,306	(10,506)
Water and sewer:			
Salaries and benefits	54,260	41,759	12,501
Outside services	1,000	-	1,000
Travel and per diem	1,500	-	1,500
Parts and supplies	4,000	18,730	(14,730)
Insurance	5,700	2,106	3,594
Equipment	2,000	2,498	(498)
Freight	1,200	1,228	(28)
Electricity	3,000	10,638	(7,638)
Fuel	1,500	1,319	181
Repairs and maintenance	12,150	-	12,150
Dues and fees	3,500	2,992	508
Miscellaneous	590	-	590
Total water and sewer	90,400	81,270	9,130
Garbage and recycling:			
Salaries and benefits	50,000	53,482	(3,482)
Parts and supplies	1,000	13,996	(12,996)
Insurance	1,000	432	568
Equipment	1,000	-	1,000
Freight	-	3,430	(3,430)
Electricity	-	1,786	(1,786)
Fuel	200	245	(45)
Repairs and maintenance	1,000	-	1,000
Total garbage and recycling	54,200	73,371	(19,171)

(Continued)

CITY OF AKUTAN
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Apartment building:			
Salaries and benefits	\$ -	1,394	(1,394)
Parts and supplies	30,000	473	29,527
Freight	3,000	-	3,000
Insurance	1,400	2,634	(1,234)
Fuel	100	-	100
Equipment	5,000	-	5,000
Gasoline	-	101	(101)
Repairs and maintenance	500	-	500
Miscellaneous	3,000	-	3,000
Total apartment building	<u>43,000</u>	<u>4,602</u>	<u>38,398</u>
 Total public works	 <u>489,900</u>	 <u>275,124</u>	 <u>214,776</u>
 Port authority:			
Harbor:			
Salaries and benefits	-	769	(769)
Contractual services	26,000	5,960	20,040
Travel and per diem	2,500	563	1,937
Parts and supplies	-	221	(221)
Insurance	-	4,052	(4,052)
Equipment	-	1,397	(1,397)
Dues and fees	300	2,002	(1,702)
Postage	-	19	(19)
Telephone	-	2	(2)
Miscellaneous	147,703	-	147,703
Total harbor	<u>176,503</u>	<u>14,985</u>	<u>161,518</u>
 Skiff moorage:			
Salaries and benefits	500	-	500
Insurance	200	-	200
Total skiff moorage	<u>700</u>	<u>-</u>	<u>700</u>
 Dock and warehouse:			
Salaries and benefits	30,000	24,755	5,245
Parts and supplies	1,500	9,397	(7,897)
Travel and per diem	3,500	-	3,500
Insurance	7,700	7,580	120
Telephone	-	1,295	(1,295)
Electricity	4,000	29,000	(25,000)
Fuel	1,600	739	861
Repairs and maintenance	500	-	500
Postage	-	30	(30)
Miscellaneous	2,500	-	2,500
Total dock and warehouse	<u>51,300</u>	<u>72,796</u>	<u>(21,496)</u>

(Continued)

CITY OF AKUTAN
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Airport:			
Salaries and benefits	\$ 245,000	287,621	(42,621)
Contractual services	3,000	-	3,000
Outside services	2,704	12,092	(9,388)
Travel and per diem	3,500	3,727	(227)
Parts and supplies	22,525	25,948	(3,423)
Building materials	1,000	-	1,000
Freight	1,500	8,737	(7,237)
Rent	15,911	15,911	-
Insurance	14,000	6,715	7,285
Telephone	36,000	9,190	26,810
Cable	3,000	-	3,000
Fuel	145,500	158,114	(12,614)
Equipment	3,500	33,052	(29,552)
Repairs and maintenance	500	8,139	(7,639)
Dues and fees	500	170	330
Miscellaneous	5,000	11,346	(6,346)
Total airport	<u>503,140</u>	<u>580,762</u>	<u>(77,622)</u>
Total port authority	<u>731,643</u>	<u>668,543</u>	<u>63,100</u>
Total expenditures	<u>2,888,758</u>	<u>2,473,052</u>	<u>415,706</u>
Excess of revenues over expenditures	384,530	1,311,557	927,027
Other financing sources (uses):			
Transfers out:			
Geothermal Development Special Revenue Fund	(50,000)	-	50,000
Fuel/Gas Special Revenue Fund	-	(126,557)	(126,557)
Electric Enterprise Fund	(500,000)	(72,138)	427,862
Capital project funds:			
Other Capital Projects Capital Project Fund	(50,000)	(94,426)	(44,426)
Duplex New Construction Capital Project Fund	(75,000)	(196,729)	(121,729)
Water and Sewer Capital Project Fund	(25,000)	(76,000)	(51,000)
Total other financing uses	<u>(700,000)</u>	<u>(565,850)</u>	<u>134,150</u>
Net change in fund balance	\$ <u>(315,470)</u>	745,707	<u>1,061,177</u>
Beginning fund balance		<u>3,605,056</u>	
Ending fund balance		<u>\$ 4,350,763</u>	

CITY OF AKUTAN

Geothermal Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2017

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Intergovernmental:			
Federal sources	\$ 931,000	559,554	(371,446)
State of Alaska	2,695,000	857,393	(1,837,607)
Local sources - investment income	-	42	42
Total revenues	<u>3,626,000</u>	<u>1,416,989</u>	<u>(2,209,011)</u>
Expenditures:			
Current:			
Public works:			
Salaries and benefits	35,000	29,406	5,594
Contractual services	3,769,000	1,260,346	2,508,654
Travel and per diem	95,000	56,115	38,885
Materials and supplies	60,000	81,003	(21,003)
Equipment	22,000	102,372	(80,372)
Miscellaneous	-	7,496	(7,496)
Total expenditures	<u>3,981,000</u>	<u>1,536,738</u>	<u>2,444,262</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(355,000)</u>	<u>(119,749)</u>	<u>235,251</u>
Other financing sources:			
Grant match portion	<u>355,000</u>	<u>-</u>	<u>(355,000)</u>
Net change in fund balance	\$ <u>-</u>	(119,749)	<u>(119,749)</u>
Beginning fund balance		<u>513,623</u>	
Ending fund balance		\$ <u><u>393,874</u></u>	

CITY OF AKUTAN

Duplex Construction Capital Project Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance
 Year Ended June 30, 2017

Revenues:

Intergovernmental:

State of Alaska - AHFC	\$ <u>374,404</u>
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Expenditures:

Capital outlay:

Salaries and benefits	70,664
Contractual services	631,988
Outside services	10,798
Parts and supplies	1,483
Travel and per diem	826
Postage and frieght	2,357
Other	<u>10</u>
Total expenditures	<u>718,126</u>

Excess (deficiency) of revenues over (under) expenditures	<u>(343,722)</u>
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Other financing sources - transfers in	<u>196,729</u>
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Net change in fund balance	(146,993)
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Beginning fund balance	<u>173,646</u>
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Ending fund balance	\$ <u><u>26,653</u></u>
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CITY OF AKUTAN

Permanent Special Revenue Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance
Year Ended June 30, 2017

Revenues - local- investment income	\$ <u>57,864</u>
Expenditures - current - general government - Investment fees	<u>5,088</u>
Excess of revenues over expenditures	52,776
Beginning fund balance	<u>1,396,281</u>
Ending fund balance	\$ <u><u>1,449,057</u></u>

CITY OF AKUTAN

Fuel/Gas Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2017

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Local sources - charges for services	\$ 190,000	92,285	(97,715)
Total revenues	<u>190,000</u>	<u>92,285</u>	<u>(97,715)</u>
Expenditures:			
Current:			
Community services:			
Salaries and benefits	50,000	45,077	4,923
Outside services	10,000	-	10,000
Repairs and maintenance	10,000	-	10,000
Parts and supplies	5,000	2,606	2,394
Insurance	9,000	3,758	5,242
Utilities	1,200	1,298	(98)
Gasoline	15,000	15,051	(51)
Diesel	370,000	174,997	195,003
Freight		4,567	(4,567)
Miscellaneous	14,130	-	14,130
City fuel use	(286,000)	(111,711)	(174,289)
Total expenditures	<u>198,330</u>	<u>135,643</u>	<u>62,687</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,330)</u>	<u>(43,358)</u>	<u>(35,028)</u>
Other financing sources:			
Transfer in	<u>-</u>	<u>126,557</u>	<u>126,557</u>
Net change in fund balance	<u>\$ (8,330)</u>	83,199	<u>91,529</u>
Beginning fund balance		<u>(68,159)</u>	
Ending fund balance		<u>\$ 15,040</u>	

CITY OF AKUTAN

Other Governmental Funds
Combining Balance Sheet
June 30, 2017

	Capital Project Funds			Total Other Governmental Funds
	Water and Sewer	Boat Harbor	Other Capital Projects	
<u>Assets</u>				
Cash and investments	\$ 98,875	10,000	50,251	159,126
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	-	-	24,471	24,471
Total liabilities and deferred inflows of resources	-	-	24,471	24,471
Fund balances:				
Committed	98,875	10,000	25,780	134,655
Unassigned	-	-	-	-
Total fund balances	98,875	10,000	25,780	134,655
Total liabilities and fund balances	\$ 98,875	10,000	50,251	159,126

CITY OF AKUTAN

Other Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2017

	Capital Project Funds			Total Other Governmental Funds
	Water and Sewer	Boat Harbor	Other Capital Projects	
Revenues:				
Intergovernmental:				
Federal sources	\$ 139,655	-	-	139,655
Local sources:				
Charges for services	-	-	-	-
Investment income	-	-	796	796
Total revenues	<u>139,655</u>	<u>-</u>	<u>796</u>	<u>140,451</u>
Expenditures:				
Current:				
Public works	1,125	-	-	1,125
Capital outlay	<u>293,655</u>	<u>-</u>	<u>118,838</u>	<u>412,493</u>
Total expenditures	<u>294,780</u>	<u>-</u>	<u>118,838</u>	<u>413,618</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(155,125)</u>	<u>-</u>	<u>(118,042)</u>	<u>(273,167)</u>
Other financing sources (uses):				
Transfer in	<u>76,000</u>	<u>-</u>	<u>94,426</u>	<u>170,426</u>
Net change in fund balances	(79,125)	-	(23,616)	(102,741)
Beginning fund balances	<u>178,000</u>	<u>10,000</u>	<u>49,396</u>	<u>237,396</u>
Ending fund balances	<u>\$ 98,875</u>	<u>10,000</u>	<u>25,780</u>	<u>134,655</u>

CITY OF AKUTAN

Schedule of State Financial Assistance
Year Ended June 30, 2017

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>State Share of Expenditures</u>
Department of Commerce, Community and Economic Development			
* Community Revenue Sharing	2017	\$ 89,211	89,211
* Shared Fisheries Business and Landing Tax	2017	210,114	210,114
Total Department of Commerce, Community and Economic Development		299,325	299,325
Alaska Energy Authority			
* Akutan Geothermal Development Project	7040050	2,695,000	857,393
Alaska Housing Finance Corporation			
* New Construction / Health, VPSO Duplex	THP-15-CAK-1	694,587	374,404
Department of Revenue			
* Fisheries Business Tax Sharing	2017	1,082,206	1,082,206
Department of Administration			
PERS Relief	2017	41,279	41,279
Total State Financial Assistance		\$ 4,812,397	2,654,607

See accompanying notes to the Schedule of State Financial Assistance.

CITY OF AKUTAN

Notes to Schedule of State Financial Assistance

Year ended June 30, 2017

Note 1. Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state award activity of City of Akutan under programs of the State of Alaska for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of City of Akutan, it is not intended to and does not present the basic financial statements of City of Akutan.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

Note 3. Subrecipients

No state funds were passed through to Subrecipients.

Note 4. Major Programs

* denotes a major program for compliance audit purposes.

COMPLIANCE REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Members of the City Council
City of Akutan, Alaska
Akutan, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Akutan, Alaska's basic financial statements, and have issued our report thereon dated March 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Akutan, Alaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Akutan, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Akutan, Alaska's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2017-001, that we consider to be a material weakness.

Members of the City Council
City of Akutan, Alaska

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Akutan, Alaska's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Akutan, Alaska's Response to Findings

The City of Akutan's response to the finding identified in our audit is described in the Schedule of Findings and Questioned Costs Corrective Action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Akutan, Alaska's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Akutan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Altman, Rogers & Co.

Anchorage, Alaska
March 19, 2018

**Report on Compliance For Each Major State Program and on Internal Control over Compliance Required
by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits**

Independent Auditor's Report

Members of the City Council
City of Akutan, Alaska
Akutan, Alaska

Report on Compliance for Each Major State Program

We have audited City of Akutan's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of Akutan's major state programs for the year ended June 30, 2017. City of Akutan's major state programs are identified in the accompanying Schedule of State Financial Assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Akutan, Alaska's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of Akutan, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of City of Akutan, Alaska's compliance.

Opinion on Each Major State Program

In our opinion, the City of Akutan, Alaska, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2017.

Members of the City Council
City of Akutan, Alaska

Report on Internal Control over Compliance

Management of the City of Akutan, Alaska, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Akutan, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Akutan, Alaska's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first *paragraph* of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska
March 19, 2018

CITY OF AKUTAN

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Is going concern emphasis-of-matter paragraph included
in the audit report?

____ Yes X No

Internal control over financial reporting:

Material weakness(es) identified?

X Yes ____ No

Significant deficiency(ies) identified?

____ Yes X None noted

Noncompliance material to financial statements noted?

____ Yes X No

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified?

____ Yes X No

Significant deficiency(ies) identified?

____ Yes X None reported

Type of auditor's report issued on compliance
for major programs:

Unmodified

Dollar threshold used to distinguish
a state major program:

\$ 75,000

CITY OF AKUTAN

Schedule of Findings and Questioned Costs, Continued

Section II – Financial Statement Findings

Finding 2017-001 **Material Weakness**

Internal Control Over Capital Assets

Condition:	During the year management determined that project costs incurred by Alaska Native Tribal Health Consortium (ANTHC) on behalf of the City were not recorded as construction in progress in fiscal year 2016.
Criteria:	Costs incurred for projects that will become assets of the City should be recorded as if the City was incurring the expenditures.
Context:	ANTHC incurred costs on the City's behalf in the amount of \$105,112 for a City water project in fiscal year 2016 that were not reported in the City's financial statements.
Cause:	Lack of internal control over capital assets and construction projects.
Effect:	The City's financial statements did not accurately reflect the costs incurred on the construction project resulting in a prior period adjustment.
Recommendation:	We recommend the City monitor all construction projects, regardless of who is performing the work. The City should understand what funding sources are being used and appropriately record the activity in the City's general ledger.
Management's Response:	Management concurs with finding. See corrective action plan.

Section III – State Award Findings and Questioned Costs

The City did not have any findings or questioned costs related to State awards

Section IV – Summary of Prior Year Audit Findings

Financial Statement Findings

Finding 2016-001 **Significant Deficiency**

Internal Control Over Payroll

Condition:	The payroll system of the City lacks internal controls necessary to ensure accurate financial reporting. Multiple transactions tested were not accurately supported by the payroll documentation (e.g. timesheet) or lacked the necessary payroll documentation (employee contracts, personnel action form with pay rate authorization, payroll deduction authorization).
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CITY OF AKUTAN

Schedule of Findings and Questioned Costs, Continued

Status/

Management's Response: This finding has been resolved.

Finding 2016-002

Material Weakness

Internal Control Over Cash Receipts

Condition:

The cash receipts system of the City lacks internal controls necessary to ensure accurate financial reporting. During testing of cash receipts, we came across several transactions with no supporting documentation or supporting documentation that did not agree to the amounts being deposited. We noted lack of segregation of duties over cash collection and recording of transactions to the general ledger.

Status/

Management's Response: This finding has been resolved.

State Award Findings and Questioned Costs

Finding 2016-003

Material Weakness/

Material Non-compliance

Late Reporting

<u>Department</u>	<u>Grant</u>	<u>Number</u>
DCCED	Community Revenue Sharing	2016
DCCED	Shared Fisheries Business and Landing Tax	2016
Alaska Energy Authority	Akutan Geothermal Development Project	7040050
Alaska Housing Finance Corporation	New Construction/Health, VPSO Duplex	THP-15-CAK-1
Department of Revenue	Fisheries Business Tax Sharing	2016

Condition:

The City did not adhere to the State of Alaska's requirement to submit their audited financial statements and State compliance report within nine months of their fiscal year end.

Status/

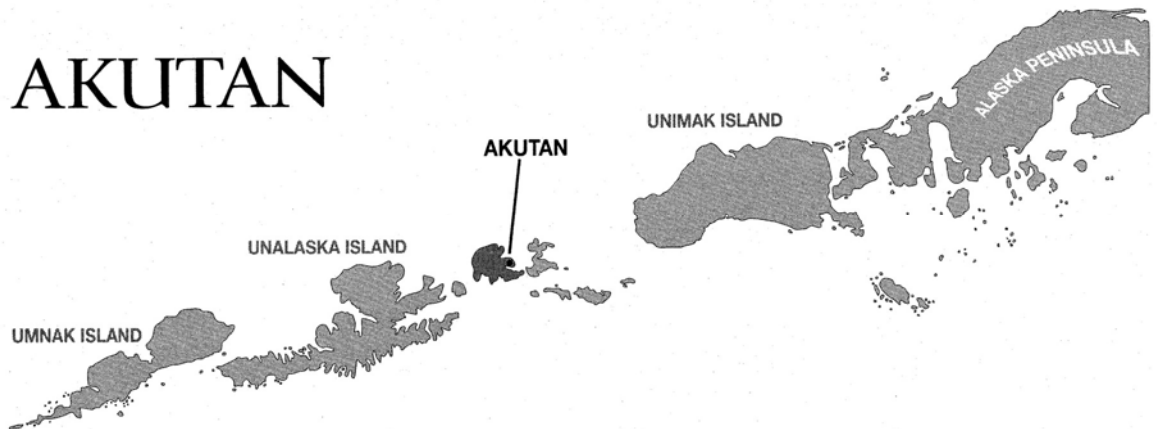
Management's Response: This finding has been resolved.

CITY OF AKUTAN

Anchorage Office

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Anchorage, Alaska 99503-3952

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Fax (907) 274-1813



Corrective Action Plan

June 30, 2017

Financial Statement Findings

Finding 2017-001

Internal Control Over Capital Assets

Name of Contact:

Bobby Jo Kramer, Finance Director

Corrective Action Plan:

The City is working with the Alaska Native Tribal Health Consortium (ANTHC) and the State of Alaska Department of Transportation and Public Facilities (ADOT/PF) to obtain Job Cost History Reports on a periodic basis throughout the duration, respectively, of the Water Dam Impoundment project and the Akutan Ferry Dock Improvement project. These reports detail ANTHC and ADOT/PF expenditures on these projects. The City now has the ability to report on costs incurred on its behalf that will become City assets, and will be recorded as if the City was incurring the expenditures. The City will now monitor all construction projects, regardless of who is performing the work, to more accurately reflect such activity in the City's general ledger.

Proposed Completion Date: March 31, 2018